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Line to Take: ONLY IF FUJITSU/ICL WITHDRAW

The Government is committed to post office automation, and to a secure, cost effective and convenient way of delivering benefits. The Horizon contract, which was designed to achieve this, was awarded by the last administration in May 1996 to a consortium led by ICL under the PFI.

But ICL have failed to deliver, and have been in breach of contract since 1997. They have asked the Benefits Agency and the Post Office for more time and more money, and have consistently failed to meet deadlines. The system should have been fully operational by the end of last year, but is now running 3 years late.

The Government has done all it can to find a way through the current difficulties with the project, and to salvage the time and effort all parties have devoted to it. But it cannot do this at any price. It would be wrong for the taxpayer to bail out ICL; and unfair to other suppliers who originally bid for the contracts.

Even now, the Government would be willing to continue discussions with ICL. But ICL/Fujitsu have now chosen to walk away.

The Government remains committed to the automation of post offices and will support the Post Office in seeking an alternative system to meet this objective.

In the meantime, the Government will continue existing arrangements for paying benefits, including over the counter at post offices.

Background

1. The Horizon project was set up under the last administration with the twin objectives of providing an automation platform for the Post Office

and an electronic means of paying benefits at post offices which would cut out around £100 million of encashment fraud. This Government remains committed to these objectives.

2. The Horizon project is worth over £1 billion of Government/tax payer's money; has the potential to affect the 15 million people who currently collect their benefit payments at Post Offices; the 28 million who use the network of 19,000 Post Offices; and the subpostmasters whose livelihoods are involved. **It is crucially important that the system works.**

Brief history

3. A consortium led by ICL won the contract in 1996. Under PFI arrangements, they undertook to meet the development cost of the project, in the expectation that they would reap a substantial return on that investment once the project was up and running.
4. It soon became apparent ICL had overstretched themselves: they underestimated the technical requirements and despite backing from Fujitsu did not have sufficient financial cover.
5. ICL were placed in breach of contract by the public sector parties in November 1997 for failure to meet a key milestone. Since then, far from improving their performance there have been further delays and missed milestones, with the end date for getting the system in place stretching ever further into the future.
6. Under the original contracts the system should have been operational by the end of 1998 and fully up and running throughout the Post Office network. On current plans, it may be completed three years late at the end of 2001; but the problems with current testing make even this look unlikely.

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Key points

7. ICL did not have to sign the original contracts. They took on the project willingly, in the hope of substantial profit. Government and the taxpayer should not be expected to bail them out, if they have made an error of judgment.

8. And it would be unfair to others who competed for the contracts if we do.

Q&A: ONLY IF ICL/FUJITSU DECIDE TO WITHDRAW

General

Regret that ICL has felt unable to continue with the project despite the public sector parties' best efforts to agree revised terms with them. But must remember they are in breach of contract.

Even now, Government would be willing to continue discussions with ICL to find a way forward. But not at any price. It would be wrong for the taxpayer to bail out ICL; and unfair to other suppliers who originally bid for the contracts.

What went wrong?

Project is large and complex, has been subject to significant delays which are the result of ICL's failure to deliver. The project is now running 3 years late. Government remains fully committed to the objectives of the project, and has been trying very hard to find a way to resolve the difficulties.

What is the Government going to do instead?

Government is fully committed to the objectives of the Horizon project to provide an automated platform for post offices; and to provide a simple, fraud-resistant way of paying benefits. The Government will support the Post Office in seeking an alternative automation platform. Benefits will continue to be paid over post office counters in the usual way. DSS will be seeking alternative ways of reducing fraud, building on the wider programme it has in place.

What will be the impact on PO Counters? Won't it result in widespread closures?

Government remains fully committed to maintaining a nationwide network of post offices, and recognises vital role that post offices play in communities.

Government will support the Post Office in seeking an alternative automation platform, but in the meantime it will be business as usual for post offices. Benefits will continue to be paid over post office counters as they are now.

What about rural post offices?

Government remains fully committed to maintaining a nationwide network of post offices, and recognises vital importance of post offices in rural

communities. Will support the Post Office in seeking an alternative supplier for an automation platform.

What will be the impact on benefit customers?

Vast majority of 20 million benefit customers will be unaffected. Existing arrangements will continue, including over the post office counter as now. Those currently using the benefit payment card - around 30,000 people - will see no interruption of their payments.

Is the Government going to introduce compulsory payment of benefits into bank accounts?

Government will be exploring alternative ways of achieving their aim to secure a convenient, cost-effective and fraud-free way of paying benefits.

Benefit recipients can currently opt to receive their benefits through their bank accounts. But Government wants to ensure that all benefit recipients who wish to do so can continue to collect their benefits in cash at post offices - and it will be exploring alternative solutions that achieves this.

What about the White Paper on the Post Office?

It clearly remains our intention to publish the White Paper on Post Office reform. We need to consider with interested parties, not least the Post Office itself, the implications of these events for our modernising programme before the White Paper issues. But the Government remains committed to providing the Post Office with greater commercial freedom and to a more competitive postal market and independent regulation, as set out in our policy statement on the future of the Post Office (Mandelson, 7 December 1998).

Isn't this just another example, in a growing list, of failed PFI projects in the IT sector?

There is nothing fundamentally wrong with PFI procurements nor are there any fundamental flaws with taking IT projects forward under PFI — others are being delivered successfully: providing good value and service to the public-sector and attractive return to the private sector investors. For example:

- the OSIRIS project supplied by Siemens Business Service for the Welsh Office
- ArmyMail Project supplied by Bull for the Ministry of Defence

- Employment Partnership Project supplied by EDS for the Department for Education and Employment

In contrast a number of conventionally procured IT projects have run into difficulties - for example the delays to the National Air Traffic Services New Enroute Centre (NERC).

We have been working with the supplier to address their problems with the Project and we find it unfortunate that they have needed to take this action.

What will be the impact on ICL? What about their plans for flotation?

Decisions concerning the future of ICL are a matter for ICL and its parent company, Fujitsu.

Government has destroyed ICL?

ICL remains a major player in the UK's IT sector, as well as a valued supplier to the Government. This is only one of a significant number of contracts - e.g. the ELGAR contract for DTI. ICL and Fujitsu are private sector companies who make their own commercial decisions. It is for them to decide future plans.

ICL says that its the fault of the Benefits Agency/PO Counters?

ICL were placed in breach of contract in 1997 and since then have consistently failed to meet deadlines. Whole series of independent reports which confirm that fault lies at ICL's feet. Public sector has met all its commitments under the contracts.

ICL did not have to sign the original contracts. They took on the project willingly, in the hope of substantial profit. Government and the taxpayer should not be expected to bail them out, if they have made an error of judgment.

ICL say Ministers have been too slow to take decisions?

Government is committed to the objectives of the project, and wanted to find a way of resolving the difficulties. Large and complex project, significant amount of public money at stake. Only right that it should consider very carefully how to move forward.

ICL say that the Government has allowed the termination of the contracts because they did not want to continue with the benefit payment card. The Government terminated for convenience?

Not true. It is only because ICL are in breach of contract for failure to deliver, and are seeking more money and time to complete the contracts, that we had to review the project at all. If they had delivered to time and to contract, the benefit payment card would be up and running, to the benefit of Post Office Counters and taxpayers. Against the background of a 3 year delay, however, and for a project of this size, it is standard practice to make contingency plans.

Surely a project failure on this scale will result in serious difficulties for ICL. In view of the Government's role in these difficulties won't it be under pressure to bail out ICL as it has in the past and has recently done with Rover?

ICL's commercial position is a matter for ICL and its parent group Fujitsu.

What are the implications for inward investment by ICL's parent company, Fujitsu?

Fujitsu is one of the largest overseas investors in the UK. Government has made it clear at the highest levels how much this investment is valued. It is clearly for Fujitsu to decide on the future of its investments in the UK but the Government will do all it can to ensure the UK remains an attractive investment location for the company.

What are the implications for the future investment from Japan generally?

The issues here are not about Japanese investment in the UK. There are a wide range of factors which have led to the UK being Europe's number one investment location for Japanese companies with over 40% of Japanese investment here. These factors have not changed.

Is termination of the project a reaction to Fujitsu closing its semi-conductor plant in the North East?

There is absolutely no connection whatsoever between these two events. The Government continues to work closely with Fujitsu and its Response Group to try and find a buyer for the Newton Aycliffe plant and together we have succeeded in placing 80% of the 570 strong workforce in alternative employment, full time training or higher education.

ICL Pathway: list of failures

Independent reviews of the Horizon project by external IT experts have all concluded (most recently this week) that ICL Pathway have failed and are failing to meet good industry practice in taking this project forward, both in their software development work and in their management of the process.

To date, in the development stages of the project:

- all planned release dates have been missed - including the key contractual milestone for completion of the operational trial for which ICL Pathway were placed in breach in November 1997
- on current working plans, updated as recently as September 1998, the first milestone thereafter - Model Office Testing - was delayed by 2 months
- every release has been subject to reductions in the originally planned functionality
- and even when each release has gone live, there have been faults and problems which have resulted in the need for Pathway to reimburse DSS
- in the current trials the known problems have risen from 46 in November 1998 to 139 at the end of March 1999; and currently 146 have not been resolved
- nearly 16 million people should by now be paid by the benefit payment card. In fact only 30,000+ people are currently being paid by the benefit payment card - for one benefit only
- roll out of the system to 19,000 post offices should have been completed at the end of 1998. But only limited functionality is available currently in 204 post offices
- delays to the programme have already cost the Government over £200m in savings they would otherwise have expected to make